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A HISTORY OF PAPER MONEY.

A History of American Currency; with chapters on the English Bank-Restriction Act and Austrian Paper Money. By William G. Sumner, Professor of Political and Social Science in Yale College: to which is added the Bullion Report of 1810. One volume, N. Y. 1874, 394 pp. Price, three dollars.

This volume is an opportune addition to the literature of banking; and supplies to the many seekers after knowledge much information on the (supposed abstruse) subject of paper money. The volume is peculiarly appropriate and acceptable at this period, because the public journals of the day, and our congressional debates of the current year indicate a sad ignorance of those principles which should govern the laws, and likewise an ignorance of those facts which are duly recorded in the financial history of this country.

One would readily suppose that the legislation of the present day would be largely influenced, if not controlled by the opinions of those eminent men who have contributed so wisely to the action of Congress, so far as the heads of the Treasury were concerned, from the year 1790 to 1840. But unfortunately the financial history of the country, and the established principles of finance in EUROPE and AMERICA, have been recently overlooked by modern legislators; and attempts have been recently made to again inaugurate the follies of the French assignat and the paper system of 1833-1837.

We may breathe again! The attempt to fasten upon us a paper currency, of enormous dimensions or volume, is for the present frustrated. Let us hope that the day is approaching when Congress will re-establish the currency of the country upon a specie basis, and upon such a reliable footing that the present generation will see no relapse. Let the advice of a HAMILTON, a GALLATIN, a DALLAS, and a CRAWFORD be adhered to, and of every Secretary of the Treasury from the formation of the government to the lamentable year of 1861.

Mr. SUMNER'S new volume is divided into chapters, viz: I.—History of the early American Currency. II.—Legal-tender Issues of 1751. III.—Continental Paper Money. IV.—First Bank of the UNITED STATES. V.—Second Bank of the UNITED STATES. VI.—The crises of 1819 and 1825. VII.—Bank expansion of 1833-1840. VIII.—The Crisis of 1837-1838. IX.—The Crisis of 1857. X.—The Paper Money of 1861-1871. The Appendix contains

valuable details, not hitherto published in the UNITED STATES, on the Bank-Restriction Act of 1795, and also a copy of the celebrated Bullion Report of 1810.

Those who wish to possess themselves with a true history of the crises of the present century, will find in Mr. SUMNER'S volume, a resume of the facts relating to the paper-money system of ENGLAND and the UNITED STATES during the early portions of the century, followed by ample details as to the crises of 1819, 1825, 1837, 1847, 1857 and 1861, when the merchants and bankers of both countries were sadly distressed.

The Crisis of 1857.

Of this the author says:

In the inquiries which were made as to the causes of the crisis, the state of the currency was generally recognized as the root of the trouble. The over-trading, over-importation, stock speculation, extravagance, etc., were generally ascribed to this, but there were some who found other causes for the crisis.

In general, however, the fact was recognized that the great means of keeping the business of the country sound, so far as anything can control haste for riches, is to keep the currency sound, and that the only way to keep the currency sound is to have it actively and actually converted into coin.

The Financial Errors of 1861-1862.

Such was the situation when Congress met in December, 1861. Never did any man have such an opportunity to win immortality as a financier as was now offered to Mr. CHASE. The situation had at this moment few difficulties. The people were less sanguine that the war would be short than they had been in the previous summer. They had contracted their expenses to the lowest point, and production was reduced to the necessary supply for consumption. They held their disengaged capital ready to the demand of the government, if it should act with promptness and decision, and support its own credit. Nor was it the capital of the country alone which was available. War taxes must and always do trench upon income. It was the active productive power of the nation, which might be turned to war-making, which was the great resource. The nation was not only willing to be taxed, but itself understood generally that only when it was being taxed could it give full credit to its own paper promises. The Congress, moreover, was ready to give to the Secretary all he asked. If he had been the minister of the Czar he could not have disposed more absolutely of the National resources. All that was needed was a firm, clear, bold policy, showing that he understood himself and the situation.

The treasury report presented no such policy. It did not take the lead at all. It discussed government paper disparagingly, sug-

gested a National banking system tentatively. It only showed that the nation was drifting into financial embarrassments for want of a policy. The real financial question of the day was: whether we should carry on the war on specie currency, low prices and small imports, or on paper issues, high prices, and heavy imports. The alternative was not understood because no one distinctly contemplated the latter course, but it was sure to be the result of drifting under no policy.

Legal-Tender Act.

The embarrassments of the government becoming greater and greater, the bill for an issue of legal-tender notes was hastily prepared and offered in the House. Mr. E. G. SPAULDING, of Buffalo,* claims to have been the author of this act, and no counter claimant has ever arisen. The act was earnestly opposed by some of the oldest and best members of both houses, but it was pressed as "necessary," and forced through with the energy and decision, which, earlier in the session so much needed to be exerted in another direction. So far as I know, Mr. OWEN LOVEJOY is the only man who is on record as having put his finger on the irredeemable bank notes as the greatest evil in the situation. The bill was signed on the 25th February, 1862.

This act was passed, as the debate shows, as a temporary war measure. On the part of its advocates, Mr. THADDEUS STEVENS at the head, it was urged and probably believed, that the legal-tender clause would prevent depreciation and give credit to the notes.

PELATIAH WEBSTER wrote in 1791: "The fatal error, that the credit and currency of the continental money could be kept up and supported by acts of compulsion, entered so deep into the minds of Congress, and of all departments of administration through the States, that no considerations of justice, religion, or policy, or even experience of its utter inefficacy, could eradicate it. It seemed to be a kind of obstinate delirium, totally deaf to every argument drawn from justice and right, from its natural tendency and mischief, from common sense, and even common safety. This ruinous principle was continued in practice for five successive years, and appeared in all shapes and forms, *i. e.*, in tender acts, in limitation of prices, in awful and threatening declarations, in penal laws with dreadful and ruinous punishments, and in every other way that could be devised, and all executed with a relentless severity, by the highest authorities then in being, *viz.*, by Congress, by assemblies and conventions of the States, by committees of inspection (whose powers in those days were nearly sovereign), and even by military force; and though men of all descriptions stood trembling before this monster of force, without daring to lift a hand against it, during all this period, yet its unrestrained energy proved ever ineffectual to its purposes, but in every instance increased the evils it was designed to remedy, and

destroyed the benefits it was intended to promote. At best its utmost effect was like that of water sprinkled on a blacksmith's forge, which, indeed, deadens the flame for a moment, but never fails to increase the heat and force of the internal fire. Many thousand families of full and easy fortune were ruined by these fatal measures, and lie in ruins to this day, without the least benefit to the country or to the great and noble cause in which we were then engaged."

One immediate effect of the Legal-Tender Act was to destroy our credit abroad. Stocks were sent home for sale, and as BAGEHOT shows,* Lombard street was closed to a nation which had adopted legal-tender paper money. No sales of bonds could be made in ENGLAND until the war closed, and the amount of legal tender to be issued was finally fixed by facts. The loans at home were scarcely more successful. Much was said in Congress about the disgrace of "shinning" through Wall street to borrow money for National use, and a foolish pride of seeing the bonds quoted at par, led to such restrictions on the Secretary that he was obliged to resort to the most disadvantageous transactions with lenders, and to continue paper issues until a six-per-cent. bond sold at par indeed, but for a currency worth from 60 to 70 cents on the dollar. The notes he paid out to government creditors were accumulated in banks, and then deposited again in the United States Treasury at five per cent.

By August all specie had disappeared from circulation, and postage stamps and private-note issues took its place.

The contraction of 1865, inaugurated by Secretary McCULLOCH, was a wise measure; but Congress unfortunately interfered and put a stop to a policy which, if prosecuted to this day, would have placed us upon a specie basis. The author says:

The war being ended, the financial question took this form: Shall we withdraw the paper, recover specie, reduce prices, lessen imports, and live economically until we have made up the waste and loss of war, or shall we keep the paper as money, export all our specie which has hitherto been held in anticipation of resumption, buy foreign goods with it, and go on as if nothing had happened?

Mr. McCULLOCH, who was now Secretary of the Treasury, proposed to contract the inflated paper, and pursue the former alternative. On the 18th of December, 1865, the House voted, 144 to 6, to authorize a contraction of 10,000,000 in the next six months, and of 4,000,000 per month after that. This operation went on until January, 1868, but in the meantime the National banks were going into operation, being allowed 300,000,000 of circulation, 150,000,000 apportioned by population, and 150,000,000 by banking capital, and their notes more than compensated for the greenbacks withdrawn. During the year 1867, also, war fears being

* Preface to the last edition of the *English Constitution*.

laid aside; speculation had sprung up, and begun to absorb the redundant paper. The turning point at which the greenback contraction met the bank note expansion was January, 1868.

At this juncture outcries were raised against contraction by those who were engaged in the movement of expansion, though, in regular business, credit was still kept in the narrow bounds to which it had been reduced during the war, and the people at large, understanding that the Legal-Tender Act was a war measure, and expecting in good faith that resumption must follow peace, had made their arrangements accordingly. Congress forbade any further contraction, and we turned to the second of the above alternatives, which we have since consistently followed.

The War Measures of Paper Money.

During the crisis greenbacks were hoarded, which was thought to prove "how good they were." If the currency consisted of clam-shells, and a crisis should come, in which it was to be feared that clam shells might be scarce, clam shells would be hoarded; much more if there was fear that the next currency might be pebbles.

Studying these facts in the light of the previous history, we perceive that the annual pressure, in the autumn, increasing in force from year to year, was a premonition of the effect which must be apprehended whenever the expansion of credit and prices should have absorbed the entire redundancy of the currency. We have seen in the history of the Massachusetts colony that each new issue was followed in a few years by a new crisis, and an outcry about hard times and scarce money. The law which governs this is apparent. The rise of prices and multiplication of credit operations will go on to absorb any amount of currency whatever. If then, the amount be fixed, expansion must come up to and press against this fixed barrier. This pressure will become apparent, first at that season of the year at which the normal requirement is greatest. At that time there will be great distress occasioned by the need of withdrawing currency from the use in which it is engaged. As it cannot be imported, and the law forbids its increase, there is no relief. It must be withdrawn, and the consequences must be endured. Then it is said that the currency is not elastic, and schemes are invented for making it so; but no device whatever can make it elastic. An elastic body is one which will both expand and contract but a paper currency never contracts itself. Any device which has elasticity for its object will have expansion for its effect.

If, now, any one is disposed to believe that there are any circumstances in this country, which are so different from those of other countries, that inferences from the history of the latter are of no value for the former, here is the history of the currency of this country, briefly and cursorily presented, but sufficiently to

show how, from the very outset our industrial development has been crippled by bad arrangements in this respect. English writers have lately given up the discussion of currency questions, and have taken the tone of passing by people who bother their heads about this subject as "possessed." The same tone has been borrowed here by a certain school which imports its *tone* even more than its ideas. No one knows what a sick and weary subject paper money is unless he has made it a speciality. I have stated below,* in its more proper connection, the distinction which is here to be observed; when the currency is sound it takes care of itself, and other considerations of far higher scientific character come in to require attention; when the currency is redundant, irredeemable paper, it floats everything and becomes a prime consideration. The English are fortunate in having experience only of a sound currency and being able to make light of evils they do not know, although they must yet again take up the subject, for, that the Bank Act of 1844 is not a scientific settlement of the currency question, is proved by the fact that it could not be imitated by any other nation.

For us the currency question is of the first importance, and we cannot solve it nor escape it by ignoring it. We have got to face it, and work through it, and the best way to begin is not by wrangling about speculative opinions as to untried schemes, but to go back to history, and try to get hold of some firmly established principles, from which we can proceed with some confidence and a certain unanimity.

We often boast of the resources of our country, but we did not make the country. What ground is there for boasting here? The question for us is: What have we made of it? No one can justly appreciate the natural resources of this country until, by studying the deleterious effects of bad currency and bad taxation, he has formed some conception of how much, since the first settlers came here, has been wasted and lost.

It is curious at this day to recur to the financial events of the European war with NAPOLEON, when paper money was again the stumbling block.

Lord GRENVILLE said that, "having considered this restriction as one of the greatest calamities under which this suffering country had labored; having frequently had occasion to lament and deplore the part which he had himself taken on its original proposition in prolonging it for the term of the then existing war . . . he could not help expressing his joy and satisfaction that the country was at last arrived at that period in which it could look forward with certainty to the repeal of this injudicious and unfortunate measure." He declared that an irredeemable paper currency was, under any circumstances, a greater evil than good; that "he hoped it would be recorded of him, as his decided conviction, that in proportion to the danger under which the country labored, he would almost

say, in proportion to the extent of that danger, was the impolicy and desperate madness of such a measure as they were now considering how to rescind. . . . He could show how the miseries of 1816 followed on the issues of the preceding year; he could show how the excessive issues of country paper, which could not maintain itself like bank paper by legislative enactment, led to a fearful depreciation, and without any fault of individuals, by the mere force of the system, involved the whole kingdom in one general desolation. Not only its trade and commerce, but its agriculture, its landed interest, even classes the most remote from connection with, or even knowledge of, the paper system, found themselves suddenly consigned to total and inexplicable ruin. If their lordships, could see at their bar, not merely the victims of commercial failure, but those numerous persons of all ages, sexes, and classes, who had unconsciously suffered even without understanding how or whence the evil fell upon them, such a spectacle would fill their lordships with horror; and he sincerely believed that not only would no voice be raised for the maintenance of such a system in commerce, but not even in war."

The proposition was advocated by Mr. HUSKISSON, who said that "a permanent state of cash payments and a circulation of one and two-pound notes could not co-exist." He urged that specie was the poor man's currency, and that, while there were no small notes, commercial crises might sweep over the mercantile community, but could not affect the laboring classes.

Mr. GRANT said, that "in every wise system of currency it was a primary element that paper should be convertible at pleasure into a metallic currency, and that all small payments and the great bulk of the circulation should be in gold."

Alderman HEYGATE said, that the country bankers would be forced to withdraw their small notes within three years, which would bring ruin. He said that the act of 1819 was intended to bring back the old standard, but that it had raised that standard. The proof was that the coins were exported on account of their "fineness and beauty."

Mr. ATTWOOD propounded a new law of the distribution of the precious metals: "The share of the precious metals which any country, rich or poor, could maintain, if there was any truth in experience, would be in the proportion of about half an ounce of gold against a quarter [8 bushels] of wheat, which gave 40s. or 50s. a quarter of this money, and no more."

Thus the opposition ran over the whole history of the Restriction and the whole theory of money, but the question was, whether, having a convertible currency, they should have in it notes under £5.

Mr. CANNING said: "If, on the present occasion, I am for withdrawing, within a limited time, the one-pound note from circulation, it is not from the mere love of theory, but because I

have seen it practically proved in the experience of years, which have elapsed since the Bullion Committee sat, that the circulation of the small notes cannot co-exist with a metallic currency."

"It is vain to think of introducing gold amidst the overwhelming spread of small paper circulation. The small paper chokes up all the ordinary channels of circulation, so that the gold, though issued from the bank, cannot flow into them, but is returned to the source from which it came."

The Bullion Report.

The following extracts from the Bullion Report of 1810, should be fully considered by the legislators of 1874 :

Your Committee therefore, having very anxiously and deliberately considered this subject, report it to the House as their opinion, that the system of the circulating medium of this country ought to be brought back, with as much speed as is compatible with a wise and necessary caution, to the original principle of cash payments at the option of the holder of bank paper.

Your Committee have understood that remedies, or palliatives, of a different nature, have been projected; such as, a compulsory limitation of the amount of bank advances and discounts, during the continuance of the suspension; or, a compulsory limitation, during the same period, of the rate of bank profits and dividends, by carrying the surplus of profits above that rate to the public account. But, in the judgment of your Committee, such indirect schemes, for palliating the possible evils resulting from the suspension of cash payments, would prove wholly inadequate for that purpose, because the necessary proportion could never be adjusted, and if once fixed, might aggravate very much the inconveniences of a temporary pressure; and even if their efficacy could be made to appear, they would be objectionable as a most hurtful and improper interference with the rights of commercial property.

According to the best judgment your Committee has been enabled to form, no sufficient remedy for the present, or security for the future, can be pointed out, except the repeal of the law which suspends the cash payments of the BANK OF ENGLAND.

In effecting so important a change, your Committee are of opinion that some difficulties must be encountered, and that there are some contingent dangers to the bank, against which it ought most carefully, and strongly to be guarded. But all those may be effectually provided for, by entrusting to the discretion of the bank itself the charge of conducting and completing the operation, and by allowing to the bank so ample a period of time for conducting it, as will be more than sufficient to effect its completion. To the discretion, experience, and integrity of the directors of the bank, your Committee believe that Parliament may safely entrust the charge of effecting that which Parliament may, in its wisdom, de-

termine upon as necessary to be effected; and that the directors of that great institution, far from making themselves a party with those who have a temporary interest in spreading alarm, will take a much longer view of the permanent interests of the bank, as indissolubly blended with those of the public. The particular mode of gradually effecting the resumption of cash payments ought therefore, in the opinion of your Committee, to be left in a great measure to the discretion of the bank, and Parliament ought to do little more than to fix definitely the time at which cash payments are to become, as before, compulsory. The period allowed ought to be ample, in order that the bank directors may feel their way, and that, having a constant watch upon the varying circumstances that ought to guide them, and availing themselves only of favorable circumstances, they may tread back their steps slowly, and may preserve both the course of their own affairs as a company, and that of public and commercial credit, not only safe, but unembarrassed.
